

B U S I N E S S S I T U A T I O N

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THE "FINAL" estimate of growth in real gross domestic product (GDP) for the second quarter of 1997 is 3.3 percent, 0.3 percentage point lower than the "preliminary" estimate reported in the September "Business Situation" (table 1 and chart 1); for 1981-96, the average revision from

the preliminary to the final estimate, without regard to sign, was 0.3 percentage point.¹

The general picture of the economy that is indicated by the final estimates of the national income and product accounts (NIPA's) is little changed from that shown by the preliminary estimates. The second-quarter increase in GDP was smaller than the 4.9-percent increase in the first quarter; the deceleration was more than accounted for by slowdowns in consumer spending and in business inventory investment and by a pickup in imports. In contrast, business fixed investment and exports increased more in the second quarter than in the first, and government spending increased after decreasing.

Revisions to the components of GDP were small. Exports and nonresidential fixed investment were revised down, and imports, which are subtracted from final expenditures in the

**Table 1.—Revisions to Real Gross Domestic Product and Prices,
Second Quarter 1997**

[Seasonally adjusted at annual rates]

	Percent change from preceding quarter		Final estimate minus preliminary estimate	
	Preliminary estimate	Final estimate	Percent- age points	Billions of chained (1992) dollars
Gross domestic product	3.6	3.3	-0.3	-5.5
Less: Exports of goods and services	19.7	18.4	-1.3	-2.5
Goods	28.0	25.1	-2.9	-4.1
Services	1.0	3.2	2.2	1.3
Plus: Imports of goods and services	19.9	20.5	.6	1.4
Goods	22.5	22.9	.4	.7
Services	7.5	8.9	1.4	.5
Equals: Gross domestic purchases	3.8	3.7	-.1	-2.0
Personal consumption expenditures	1.0	.9	-.1	-.6
Durable goods	-5.4	-5.4	0	0
Nondurable goods	-2.3	-2.1	.2	.5
Services	4.0	3.9	-.1	-.1
Fixed investment	13.1	12.6	-.5	-1.2
Nonresidential	15.4	14.6	-.8	-1.5
Structures	-3.9	-4.7	-.8	-.4
Producers' durable equipment	23.8	23.0	-.8	-1.1
Residential	7.1	7.4	.3	.2
Change in business inventories .....	.....	.....	.....	-.1
Nonfarm .....	.....	.....	.....	-.3
Farm .....	.....	.....	.....	.1
Government consumption expenditures and gross investment	3.1	3.1	0	.1
Federal	6.8	6.6	-.2	-.3
National defense	7.6	7.5	-.1	-.1
Nondefense	5.3	4.9	-.4	-.2
State and local	1.0	1.2	.2	.4
Addenda:				
Final sales of domestic product	2.8	2.5	-.3	-5.0
Gross domestic purchases price index ¹ .....	.8	.8	0	.....
GDP price index ¹	1.5	1.8	.3	.....

1. Based on chained (1992) weights.

NOTE.—The final estimates for the second quarter of 1997 incorporate the following revised or additional major source data that were not available when the preliminary estimates were prepared.

Personal consumption expenditures: Revised retail sales for June.

Nonresidential fixed investment: Revised construction put in place for May and June and revised manufacturers' shipments of machinery and equipment for June.

Residential fixed investment: Revised construction put in place for May and June.

Change in business inventories: Revised manufacturing and trade inventories for June.

Exports and imports of goods and services: Revised data on exports and imports of goods for June, and revised balance-of-payments data on exports and imports of services for the second quarter.

Government consumption expenditures and gross investment: Revised State and local construction put in place for May and June and revised State and local government employment for June.

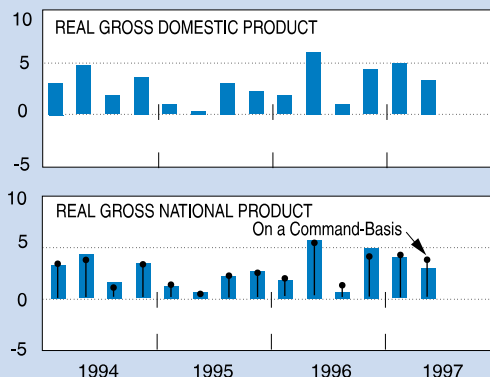
Wages and salaries: Revised employment, average hourly earnings, and average weekly hours for June.

GDP prices: Revised export and import prices for June, revised values and quantities of petroleum imports for June, and revised prices of single-family homes under construction for the second quarter.

CHART 1

Selected Product Measures: Change From Preceding Quarter

Percent



NOTE.—Percent change at annual rate from preceding quarter; based on seasonally adjusted estimates.

U.S. Department of Commerce, Bureau of Economic Analysis

calculation of GDP, were revised up. The revision to exports was more than accounted for by goods and primarily reflected the incorporation of revised data for export prices from the Bureau of Labor Statistics. The revision to business fixed investment was mostly to equipment and reflected the incorporation of revised data for shipments, primarily for aircraft, from the Census Bureau. The revision to imports primarily reflected the incorporation of revised Census Bureau data for goods for June.

Real final sales of domestic product increased 2.5 percent in the second quarter, 0.3 percentage point less than the preliminary estimate. The revision was the same as that to GDP because the revision to change in business inventories was small.

Real gross domestic purchases increased 3.7 percent, 0.1 percentage point less than the preliminary estimate. The revision was smaller than that to GDP because the revision to exports, which are not included in gross domestic purchases, was large.

The price index for gross domestic purchases increased 0.8 percent, the same as the preliminary estimate, and the price index for GDP increased 1.8 percent, 0.3 percentage point more than the preliminary estimate. The revision to the price index for GDP mainly reflected an upward revision

to export prices, which are not included in the price index for gross domestic purchases.

Real disposable personal income increased 3.1 percent, 0.2 percentage point more than the preliminary estimate. The personal saving rate was 4.2 percent, the same as the preliminary estimate.

Gross national product (GNP).—Real GNP increased 3.0 percent in the second quarter, 0.3 percentage point less than the increase in real GDP (chart 1 and table 2).² Receipts of factor income from the rest of the world increased less than payments of factor income; corporate profits accounted for more than half of the increase in receipts, and interest income accounted for about three-fourths of the increase in payments.

Real GNP on a command basis increased more than real GNP in the second quarter—4.0 percent, compared with 3.0 percent—reflecting an improvement in the terms of trade.³ In the first quarter, command-basis GNP also increased more than real GNP—4.5 percent, compared with 4.0 percent.

Corporate Profits

Profits from current production increased \$15.5 billion in the second quarter after increasing \$31.8 billion in the first (table 3).⁴ Profits of domestic corporations increased \$12.2 billion after increasing \$41.9 billion. Profits of financial corporations edged up after a strong increase; profits of nonfinancial corporations increased less than in the first quarter. For nonfinancial corporations, the second-quarter increase in profits reflected increases in both real output and unit profits. Profits from the rest of the world in-

Table 2.—Relation of Real Gross Domestic Product, Real Gross National Product, and Real Command-Basis Gross National Product

[Seasonally adjusted at annual rates]

	Billions of chained (1992) dollars			Percent change from preceding quarter	
	Level	Change from preceding quarter		1997	
	1997	1997		I	II
	II	I	II	I	II
Gross domestic product	7,159.6	84.2	58.0	4.9	3.3
Plus: Receipts of factor income from the rest of the world	236.3	-1.4	11.7	-2.4	22.4
Less: Payments of factor income to the rest of the world	250.8	14.2	16.8	28.4	31.8
Equals: Gross national product	7,144.4	68.7	52.6	4.0	3.0
Less: Exports of goods and services and receipts of factor income from the rest of the world	1,198.9	19.7	51.6	7.2	19.3
Plus: Command-basis exports of goods and services and receipts of factor income	1,241.7	28.5	69.8	10.4	26.0
Equals: Command-basis gross national product	7,187.2	77.5	70.8	4.5	4.0
Addendum:					
Terms of trade ¹	103.6	.7	1.5	2.8	6.0

1. Ratio of the implicit price deflator for the sum of exports of goods and services and of receipts of factor income to the corresponding implicit price deflator for imports with the decimal point shifted two places to the right.

NOTE.—Levels of these series are found in NIPA tables 1.10 and 1.11.

2. GNP—goods and services produced by labor and property supplied by U.S. residents—equals GDP plus receipts of factor income from the rest of the world less payments of factor income to the rest of the world.

3. In the estimation of command-basis GNP—a measure of the goods and services produced by the U.S. economy in terms of their purchasing power—the current-dollar value of the sum of exports of goods and services and of receipts of factor income is deflated by the implicit price deflator for the sum of imports of goods and services and of payments of factor income.

The terms of trade is a measure of the relationship between the prices that are received by U.S. producers for exports of goods and services and the prices that are paid by U.S. purchasers for imports of goods and services. It is measured by the following ratio, with the decimal point shifted two places to the right: In the numerator, the implicit price deflator for the sum of exports of goods and services and of receipts of factor income; in the denominator, the implicit price deflator for the sum of imports of goods and services and of payments of factor income. Changes in the terms of trade reflect the interaction of several factors, including movements in exchange rates, changes in the composition of the traded goods and services, and changes in producers' profit margins. For example, if the U.S. dollar depreciates against a foreign currency, a foreign manufacturer may choose to absorb this cost by reducing the profit margin on the product it sells to the United States, or it may choose to raise the price of the product and risk a loss in market share.

4. Profits from current production is estimated as the sum of profits before tax, the inventory valuation adjustment, and the capital consumption adjustment; it is shown in NIPA tables 1.9, 1.14, 1.16, and 6.16C as "corporate profits with inventory valuation and capital consumption adjustments."

creased \$3.4 billion after decreasing \$10.1 billion; receipts turned up, and payments slowed.⁵

Cash flow from current production, a profits related measure of internally generated funds available for investment, increased \$11.3 billion after increasing \$4.3 billion. The \$7.0 billion step-up in cash flow contrasts with the \$16.3 billion slowdown in profits from current production;

5. Profits from the rest of the world is calculated as (1) receipts by U.S. residents of earnings from their foreign affiliates plus dividends received by U.S. residents from unaffiliated foreign corporations minus (2) payments by U.S. affiliates of earnings to their foreign parents plus dividends paid by U.S. corporations to unaffiliated foreign residents. These estimates are derived from BEA's international transactions accounts.

Table 3.—Corporate Profits

[Seasonally adjusted at annual rates]


	Level		
	1997		
	Change from preceding quarter		
II	1997		
	I	II	
Billions of dollars			
Profits from current production	795.1	31.8	15.5
Domestic industries	694.4	41.9	12.2
Financial	107.7	28.3	.9
Nonfinancial	586.7	13.7	11.3
Rest of the world	100.8	-10.1	3.4
Receipts (inflows)	148.3	-2.7	8.4
Payments (outflows)	47.5	7.5	5.0
IVA	5.9	.2	2.4
CCAdj	69.4	3.3	1.7
Profits before tax	719.8	28.4	11.4
Profits tax liability	244.5	15.2	3.3
Profits after tax	475.3	13.2	8.1
Cash flow from current production	690.2	4.3	11.3
Profits by industry:			
Corporate profits with IVA	725.7	28.5	13.8
Domestic industries	624.9	38.7	10.4
Financial	117.5	28.4	1.0
Nonfinancial	507.4	10.2	9.4
Manufacturing	221.0	-1.5	12.8
Transportation and public utilities	89.6	1.0	-1.9
Wholesale trade	49.5	1.6	.5
Retail trade	54.9	6.8	-2
Other	92.4	2.3	-1.8
Rest of the world	100.8	-10.1	3.4
Dollars			
Unit price, costs, and profits of nonfinancial corporations:			
Unit price	1.072	0.004	0.003
Unit labor cost .....	.698	.004	.001
Unit nonlabor cost .....	.229	-.001	0
Unit profits from current production .....	.144	.001	.001

NOTE.—Levels of these and other profits series are found in NIPA tables 1.14, 1.16, 6.16C, and 7.15.

IVA Inventory valuation adjustment
CCAdj Capital consumption adjustment

this difference is accounted for, about equally, by slowdowns in profits tax liability and in dividends, both of which are included in profits from current production but are not in cash flow. The ratio of cash flow to nonresidential fixed investment, an indicator of the share of the current level of investment that could be financed by internally generated funds, decreased to 82.5 percent from 83.7 percent. These levels are near the midpoint of the range in which the ratio has fluctuated during most of this decade.

Industry profits.—Industry profits increased \$13.8 billion after increasing \$28.5 billion.⁶ For domestic financial corporations, profits edged up after a sharp first-quarter increase that partly reflected a rebound from a special assessment in the fourth quarter on thrift institutions to recapitalize the Savings Association Insurance Fund. For domestic nonfinancial corporations, profits increased about as much as in the first quarter. In manufacturing, profits turned up. Most manufacturing industries contributed to the upturn; two that did not were motor vehicles, which posted bigger losses than in the first quarter, and petroleum, which posted smaller profits than in the first quarter. Profits for the other major industry groups either slowed down or turned down.

Related measures.—Profits before tax (PBT) increased \$11.4 billion after increasing \$28.4 billion. The difference between the \$17.0 billion slowdown in PBT and the \$16.3 billion slowdown in profits from current production was more than accounted for by inventory profits, which decreased after changing little.⁷ 

6. Industry profits, which are estimated as the sum of corporate profits before tax and the inventory valuation adjustment, are shown in NIPA table 6.16C. Estimates of the capital consumption adjustment do not exist at a detailed industry level; they are available only for total financial and total nonfinancial industries.

7. As prices change, companies that value inventory withdrawals at original acquisition (historical) costs may realize inventory profits or losses. Inventory profits, a capital-gains-like element in profits, result from an increase in inventory prices, and inventory losses, a capital-loss-like element in profits, result from a decrease in inventory prices. In the NIPA's, inventory profits or losses are shown as adjustments to business income (corporate profits and proprietors' income); they are shown as the inventory valuation adjustment with the sign reversed.